



2004 Annual Report

Independent Electricity System Operator

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Letter to the Minister of Energy

I am pleased to submit the 2004 Annual Report of the Independent Electricity System Operator.

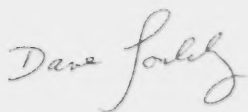
This report demonstrates our continued commitment to prudent financial and cost management, while ensuring our core responsibilities are carried out to the highest standards. In 2004, we introduced Multi-Interval Optimization and the Transitional Demand Response Program. These efforts have served to strengthen the market – which in turn increased the reliability of the system.

Over the past year, the IESO has also been preparing for the implementation of government initiatives to ensure a long-term, reliable supply of electricity. Our work to assess the impact on the transmission system of retiring aging generation facilities and introducing new ones has increased significantly with the launch of the Government's Request for Proposals for clean electricity production. We have also been recalculating the security limits we use to operate the system to take into account the new flows of electricity that are expected to come on-line.

Other changes in anticipation of Bill 100 included the financial and settlement arrangements required for the implementation of regulated rates for baseload generation; as well as assisting in the establishment of the Ontario Power Authority (OPA) – which will oversee longer-term system planning in the province. The IESO is committed to working in partnership with the OPA to achieve our common goals for a more efficient and effective electricity sector in Ontario.

As Ontario's IESO, our priorities are clear. Our vision is to “uphold the trust placed in us by developing innovative, efficient and effective solutions that deliver a reliable supply of electricity to Ontarians today and for the future.”

Our objective throughout 2005 will be to continue to maintain that trust as we work with all partners in the electricity sector to manage Ontario's power system.

A handwritten signature in cursive script, reading "Dave Goulding".

Dave Goulding
President and Chief Executive Officer

2004 Highlights

SYSTEM OPERATIONS

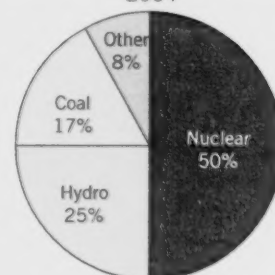
Resource adequacy continued to improve throughout 2004. More than 600 MW of new capacity was made available to the Ontario system, with the commissioning of the Brighton Beach and Kirkland Lake facilities.

As a result of the increase in supply over the last few years, none of the public appeals that characterized the summer of 2002 were required in 2004. The IESO was able to manage a new Ontario winter demand peak of 24,979 MW that was set on December 20, 2004, through normal market operations.

Increased generation capacity has also triggered a shift in Ontario's supply mix; roughly half of all energy produced in 2004 came from nuclear sources. Hydroelectric production increased slightly to 25 per cent, while coal production decreased by eight per cent to 17 per cent.

Ontario demand for electricity was up by more than one per cent in 2004 compared to 2003, with an increase to 153.4 TWh.

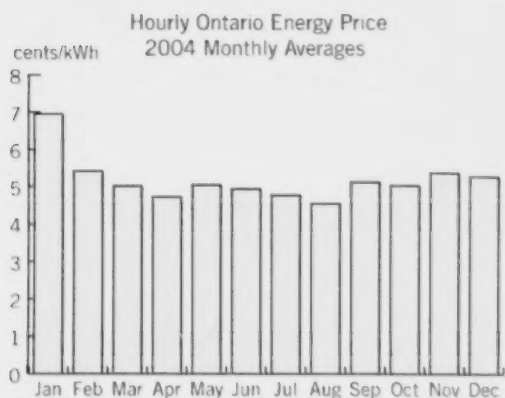
Energy Production by Fuel Type
2004



THE MARKET

Now in its third year of operation, the IESO wholesale market matured and grew with the addition of five new participants.

Prices were more moderate, reflecting the additional supply. The average hourly price for the year was 5.22 ¢/kWh, more than half a cent lower than the year before. The wholesale price applies to participants and electricity consumers who use more than 250,000 kWh a year. This means that more than half of all energy consumed in the province was exposed to the market rate.

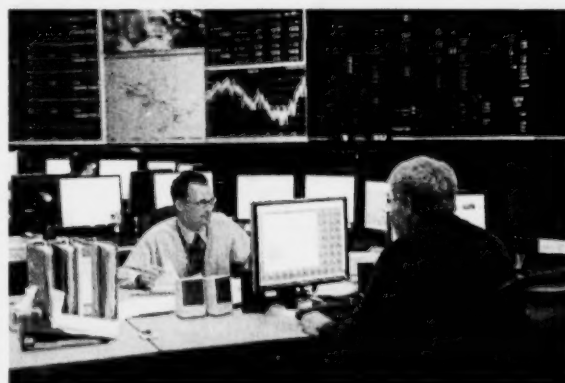


Demand response is also increasing in the market. The number of new dispatchable consumers continues to grow -- with a further 200 MW in demand response being introduced to the market in 2004. As a result, the IESO increased its 18-month projection of potential price-responsive demand to 550 MW.

IESO Achievements

- The North American Electric Reliability Council (NERC) released a report confirming that the IESO meets its responsibilities for the safe and reliable operation of Ontario's electricity system. The audit concluded that the IESO's "personnel, facilities, tools, and training are excellent," highlighting its monitoring capability and processes for planning in both real-time operations and longer-term horizons.

NERC also stated that the IESO has a robust restoration plan that is simulated and trained on regularly and that the restoration plan worked well during the August 2003 blackout. In addition, NERC recognized Ontario's commitment to enhancing reliability by having both market and reliability functions integrated within the IESO.



IESO Control Centre

- In its last monitoring report to the IESO Board, the Market Surveillance Panel (MSP) concluded that the wholesale market continues, in general, to function well and found no instances that suggested the rules were being gamed or market power was being abused. As a result of Bill 100, the MSP will report its future findings to the Ontario Energy Board.
- The Transitional Demand Response Program was launched to help "kick start" demand responsiveness in Ontario by providing financial support to help companies overcome barriers that currently prevent them from being responsive to market price signals. To date, 11 participants have been accepted into the program, representing 18 projects that could provide up to 56 megawatts in demand response. Further applications to the program will be accepted in 2005.
- Multi-Interval Optimization was implemented in mid-2004, improving operating stability and efficiency. This software optimizes dispatch instructions over a rolling period of up to 11 intervals, and forms the basis for future improvements to the dispatch process.
- The IESO launched a number of efforts to promote a better understanding of electricity wholesale prices among business and industrial users. Initiatives included revamping the Web site to provide information suited to their needs, and publishing "Making the Price of Electricity Work for You," a brochure containing demand and price highlights that was distributed through Local Distribution Companies to 15,000 business consumers.

Management Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

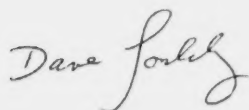
The accompanying financial statements of the Independent Electricity System Operator ("IESO") are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the IESO are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to February 3, 2005.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

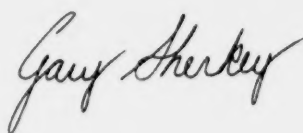
These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

On behalf of management,



Dave Goulding
President and Chief Executive Officer



Gary Sherkey
Vice President - Finance, CFO and Treasurer

Toronto, Canada
February 3, 2005

Auditors' Report

February 3, 2005

To the Board of Directors of the Independent Electricity System Operator ("IESO")

We have audited the statement of financial position of the IESO as at December 31, 2004 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the IESO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Price Waterhouse Coopers LLP

Chartered Accountants

Statement of Operations and Accumulated Surplus

(in thousands of Canadian dollars)	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
	\$	\$
REVENUES		
System fees	152,438	148,895
Other revenue	3,590	7,303
TOTAL REVENUES	156,028	156,198
EXPENSES		
Labour	63,303	56,630
Computer services, support and equipment	10,816	10,984
Consultants, contract and legal services	7,447	6,146
Telecommunications	2,395	2,938
Other costs	4,915	5,604
Amortization	52,001	51,160
TOTAL EXPENSES	140,877	133,462
Net Income Before Interest and Investment Income	15,151	22,736
Interest and investment income	1,131	3,722
Interest expense and financing charges	(10,613)	(21,535)
NET INCOME FOR THE YEAR	5,669	4,923
ACCUMULATED SURPLUS - BEGINNING OF YEAR	15,638	10,715
ACCUMULATED SURPLUS - END OF YEAR (Note 10)	21,307	15,638

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Statement of Financial Position

(in thousands of Canadian dollars)

As at December 31, 2004

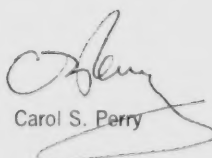
As at December 31, 2003

	\$	\$
ASSETS		
Current assets		
Cash & cash equivalents	7,302	36,939
Temporary investments	45,841	12,442
Prepaid expenses & receivables	20,188	19,344
	73,331	68,725
Property & Equipment (Note 3)		
In service	167,194	211,462
Construction-in-progress	2,038	1,664
	169,232	213,126
Other Assets		
Long term investments (Note 4)	8,016	6,464
Prepaid pension expense (Note 7)	22,097	24,566
	30,113	31,030
TOTAL ASSETS	272,676	312,881
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities (Note 5)	17,921	16,431
Accrued interest	1,677	1,952
	19,598	18,383
Long-term Debt (Note 6)	203,200	253,200
Accrual for Employee Future Benefits Other than Pensions (Note 7)	28,571	25,660
TOTAL LIABILITIES	251,369	297,243
ACCUMULATED SURPLUS (Note 10)	21,307	15,638
TOTAL LIABILITIES & ACCUMULATED SURPLUS	272,676	312,881

On behalf of the Board:



James C. Baillie



Carol S. Perry

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Statement of Cash Flows

(in thousands of Canadian dollars)	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	5,669	4,923
Adjustments for non-cash items:		
Amortization	52,001	51,160
Decrease in prepaid pension expense	7,495	4,276
Increase in accrual for employee future benefits other than pensions	4,054	3,298
	69,219	63,657
Changes in non-cash balances related to operations:		
Increase/(decrease) in accounts payable and accrued liabilities	1,803	(1,832)
Increase in prepaid expenses and receivables	(843)	(1,170)
	960	(3,002)
Other:		
Contribution to pension fund	(5,027)	(4,395)
Payment of employee future benefits	(1,143)	(1,040)
	(6,170)	(5,435)
Cash provided from operating activities	64,009	55,220
INVESTING ACTIVITIES		
Net sale/(purchase) of temporary investments	(33,399)	52,716
Purchase of long term investments	(1,552)	(6,464)
Investment in property & equipment	(8,695)	(12,351)
Cash provided from/(used in) investing activities	(43,646)	33,901
FINANCING ACTIVITIES		
Retirement of long-term debt	(50,000)	(100,000)
Cash used in financing activities	(50,000)	(100,000)
NET CHANGE IN CASH & CASH EQUIVALENTS	(29,637)	(10,879)
CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	36,939	47,818
CASH & CASH EQUIVALENTS - END OF YEAR	7,302	36,939

Supplementary Information:

(in thousands of Canadian dollars)

Interest Paid	10,321	23,291
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Certain 2003 comparative figures in the statement of cash flow above have been reclassified to conform to the 2004 presentation.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

1. NATURE OF OPERATIONS

Independent Electricity System Operator (IESO), formerly known as Independent Electricity Market Operator (IMO), is a not-for-profit, non-taxable corporation, created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the *Electricity Act*, the IESO operates pursuant to a licence granted by the Ontario Energy Board. The objects of the IESO as contained in the *Electricity Act*, and amended in the *Electricity Restructuring Act, 2004* are as follows:

- to exercise the powers and perform the duties assigned to the IESO under the *Electricity Restructuring Act, 2004*, the market rules and its licence;
- to enter into agreements with transmitters giving the IESO the authority to direct the operation of their transmission systems;
- to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of the *Electricity Restructuring Act, 2004*;
- to participate in the development, by any standards authority, of standards and criteria relating to the reliability of the transmission systems;
- to work with the responsible authorities outside Ontario to co-ordinate the IESO's activities with their activities;
- to collect and provide, to the Ontario Power Authority (OPA) and the public, information relating to the current and short-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs; and
- to operate the IESO-administered markets to promote the purposes of the *Electricity Restructuring Act, 2004*.

The North American electrical utility industry has undertaken initiatives to move away from traditional monopolies toward introducing competition into power generation. On October 30, 1998 the Government of Ontario enacted the *Energy Competition Act, 1998* to restructure the business carried on by Ontario Hydro and introduce competition. On May 1, 2002 the Government of Ontario opened the competitive electricity market.

On December 9, 2002 the Government passed Bill 210, *Electricity Pricing, Conservation and Supply Act, 2002*. Bill 210, among other things, froze the commodity cost of electricity at 4.3 cents per kilowatt-hour for a portion of the competitive market, specifically low-volume and designated customers, until May 1, 2006. On December 15, 2003, the newly elected Government of Ontario passed Bill 4, *Ontario Energy Board and Amendment Act, 2003*. Under Bill 4, beginning April 1, 2004 low-volume and designated consumers pay 4.7 cents per kilowatt-hour for their first 750 kilowatt-hours of consumption and 5.5 cents per kilowatt-hour for their remaining monthly consumption.

On December 9, 2004 the Government passed Bill 100, *The Electricity Restructuring Act, 2004*. Key elements of Bill 100 include:

- a name change for the IMO to the IESO, while retaining its core responsibilities around system and market operations;
- responsibility for the Market Surveillance Panel to be transferred from the IESO to the Ontario Energy Board (OEB);

- the OEB to have the authority to review and approve amendments to the market rules for the IESO-administered markets;
- the creation of the Ontario Power Authority (OPA), with a primary responsibility to provide an adequate, long-term supply of electricity;
- the creation of a new Conservation Bureau;
- provisions that the Minister of Energy will continue to set targets for conservation, renewable energy, and the overall supply mix;
- a regulated rate plan for electricity costs, to be approved by the OEB, for residential and other low-volume consumers based on regulated, contracted and expected market prices; and
- electricity costs for medium and large businesses to reflect a combination of regulated, contract and competitive market prices for electricity.

The price signals for the wholesale price of electricity continue to be set in the market, utilizing methodologies and systems unchanged from those utilized prior to Bill 210, Bill 4 or Bill 100.

The Electricity Act, specifically Section 19, requires on an annual basis, that the IESO submit its proposed expenditures, revenue requirements, and the fees it proposes to charge during the coming year to the OEB for review. Bill 210 amended Section 19 to provide that the submission may be made only with the approval of the Minister of Energy (Minister), a requirement that remains unchanged under Bill 4 and Bill 100. The IESO obtained permission of the Minister to submit its proposed 2005 expenditures, revenue requirements, and fees to the OEB on November 3, 2004. The OEB has not yet completed its review of the IESO's requested 2005 expenditures, revenue requirements, and fees. As specified in the Electricity Act, any surplus generated shall be used by the IESO for the purposes of carrying out its objects under the Electricity Act. The IESO expects to recover any deficit in future system fees, subject to approval by the OEB.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

b) Revenue recognition

System fees earned by the IESO are based on approved rates for each megawatt of electricity withdrawn from the IESO-controlled grid, including exports. System fees are recognized as revenue at the same time as the electricity is withdrawn.

These financial statements do not include the financial transactions of market participants within the IESO-administered markets.

Other revenue represents amounts that accrue to the IESO relating to interest on funds passing through market settlement accounts, as well as fines and penalties passing through the market adjustment account. Such revenue is recognized as it accrues.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash, term deposits and other short-term investments with original maturity dates of less than 90 days.

d) Temporary investments

Short-term money market investments with original maturities of 90 days or longer are classified as temporary investments and valued at amortized cost. Premiums and discounts are amortized to income using the constant yield method over the period to maturity.

e) Construction-in-progress

Construction-in-progress generally relates to the costs of physical facilities, hardware and software, and includes costs paid to vendors, internal and external labour, consultants, an applicable share of overhead, and an allocation of interest related to funds borrowed to finance the project. Costs relating to construction-in-progress are transferred to property and equipment in service when the asset under construction is deemed to be ready for use.

f) Property and equipment in service

Property and equipment are capitalized at cost, which comprises materials, labour, external support, overheads, and interest applicable to capital activities.

g) Amortization

The capital cost of property and equipment in service is amortized on a straight line basis over their estimated service lives.

The estimated service lives in years, from the date the assets were transferred from Ontario Hydro or subsequently acquired, are:

<u>Class</u>	<u>Estimated Average Service Life (years)</u>
Facilities	40
Market Systems and Applications	4 to 7
Infrastructure and Other Assets	3 to 10

Gains and losses on sales of property and equipment and losses on premature retirements are charged to operations as adjustments to amortization expense. Removal costs are charged to amortization expense as incurred.

The estimated service lives of property and equipment and the significant assumptions underlying the estimates of removal costs are subject to periodic review. The impacts of changes in the estimated lives of property and equipment are amortized on a prospective basis. The most recent review was completed in fiscal 2004.

h) Long term investments

Portfolio investments are carried at cost less any provision for other than temporary losses.

i) Pension and other post-employment benefits

The IESO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers compensation benefits.

The IESO accrues obligations under pension and other post-employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimate of expected return on plan assets, salary escalation, retirement ages of employees, mortality and expected health-care costs. The discount rate used to value liabilities is based on market rates as at the measurement date of September 30.

The expected return on plan assets is based on management's long-term best estimate using a market-related value of plan assets. The market-related value of plan assets is determined using market-related values for equities (whereby fund assets are calculated using the smoothed value of assets over five years) and market values for fixed income securities, as at the measurement date of September 30.

Pension and OPEB expenses are recorded during the year in which employees render services. Pension and OPEB expenses consist of current service costs, interest expense on liabilities, expected return on plan assets and the amortization of plan amendments on a straight-line basis over the expected average remaining service life of the employees covered by the plan. Actuarial gains (losses) arise from, amongst other things, the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess, if any, of the cumulative unamortized net actuarial gain or loss over 10% of the greater of the projected benefit obligation and the market-related value of plan assets is also amortized over the expected average remaining service life of the employees covered by the plan.

The expected average remaining service life of employees covered by the pension and OPEB plans is 12 years (2003: 12 years)

j) Fair value of financial instruments

The carrying amounts reported in the balance sheet for financial instruments, comprising current assets and current liabilities, approximate to their fair values. The fair value of long term investments is disclosed in Note 4. The fair value of the long-term debt is not readily available.

k) Derivative Financial Instruments

The IESO enters into foreign exchange forward contracts, for risk management purposes. Foreign exchange forward contracts are commitments to purchase foreign currencies for delivery at a specified date in the future at a fixed rate. The IESO enters into such contracts only for known or anticipated transactions that will require settlement in foreign currency, and does not use any other derivative instruments.

The IESO is exposed to changes in the value of such contracts prior to their settlement as a result of movements in the underlying foreign exchange rates. Senior management responsible for cash management manages this risk.

Where such forward contracts meet the criteria for hedge accounting, changes in their values resulting from exchange rate movements are not reflected in the financial statements. Where such contracts do not meet the criteria for hedge accounting, they are recorded at their fair value at the balance sheet date, with changes in their value recognized in the statement of operations.

l) Foreign exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations at the date at which the transactions are settled.

m) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements. Actual results could differ from those estimates.

3. PROPERTY AND EQUIPMENT

	As At December 31, 2004		As At December 31, 2003	
(in thousands of Canadian dollars)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Property and equipment in service				
Facilities	48,348	6,668	41,680	42,769
Market Systems and Applications	208,100	99,927	108,173	137,477
Infrastructure and Other Assets	70,835	53,494	17,341	31,216
	327,283	160,089	167,194	211,462
Construction-in-progress	2,038	-	2,038	1,664
	329,321	160,089	169,232	213,126

In 2004 and 2003, adjustments were made to reflect management's estimates of remaining asset service lives. The impact of these changes in estimates was an increase in amortization expense of \$2,390,495 in the year (2003 - \$7,361,243).

Removal costs of \$1,920,219 related to Data Acquisition and Computer Systems were incurred in 2003. These costs were charged to amortization in the year.

Interest capitalized to construction-in-progress during 2004 was \$24,047 (2003 - \$356,110).

4. LONG TERM INVESTMENTS

Long term investments represent an investment in a balanced pooled fund. The market value of these investments was \$8,916,508 as at December 31, 2004 (2003 - \$6,938,338).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at December 31, 2004	As at December 31, 2003
	\$	\$
Relating to property and equipment	2,281	2,869
Relating to operations	15,640	13,562
	<u>17,921</u>	<u>16,431</u>

6. LONG-TERM DEBT

(in thousands of Canadian dollars)	As at December 31, 2004	As at December 31, 2003
	\$	\$
Notes payable to		
Ontario Electricity Financial Corporation (OEFC)	78,200	78,200
The Province of Ontario	125,000	175,000
	<u>203,200</u>	<u>253,200</u>

Note payable to OEFC

The long-term note payable to Ontario Electricity Finance Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year.

Note payable to Province of Ontario

The long-term note payable to the Province of Ontario is unsecured.

On November 3, 2004, the IESO and the Province of Ontario entered into an amended and restated loan agreement in the amount of \$125.0 million to provide for the extension of the repayment date from March 31, 2005 to the earliest of March 30, 2007 or six months after which a credit rating is received or revised to a specific level.

Under the revised agreement, interest accrues daily at an interest rate equal to the three month floating Bankers' Acceptance rate plus 50 basis points during this period. At December 31, 2004, the interest rate was 3.20%. The revised loan agreement provides the right for the IESO to make prepayments on the outstanding principal at three-month intervals, in multiples of \$5.0 million, co-incident with the payment of interest. On February 3, 2004 and on May 3, 2004 the IESO prepaid \$25.0 million, for a total prepayment in 2004 of \$50.0 million. As of December 31, 2004 the outstanding principal amount was \$125.0 million. On February 3, 2005, the IESO prepaid a further \$25.0 million.

Credit facility

The IESO has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IESO an amount up to \$20.0 million. As at December 31, 2004 and 2003 no balance was drawn on the credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance.

The IESO also has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a banking syndicate, under which the syndicate will make available to the IESO an amount up to \$100.0 million. As at December 31, 2004 and 2003 no balance was drawn on this credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance. This facility will mainly be used to fund shortfalls in amounts owed to the IESO by Market Participants for payment to other Market Participants prior to their recovery under the provisions of the market rules.

7. POST-EMPLOYMENT BENEFIT PLANS

The IESO provides pension and other employee post-employment benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

Pension plans

The IESO provides a contributory defined benefit, indexed, registered pension plan. In addition to the funded, registered, pension plan, the IESO provides certain non-registered defined benefit pensions through an unfunded, indexed, non-registered plan.

Other employee future benefits

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

Summary of accrued benefit obligations and plan assets

	2004 Pension Benefits	2003 Pension Benefits	2004 Other Benefits	2003 Other Benefits
(in thousands of Canadian dollars)	\$	\$	\$	\$
Accrued benefit obligation	284,265	272,317	38,104	34,694
Fair value of plan assets	242,065	215,412	-	-
Funded status	(42,200)	(56,905)	(38,104)	(34,694)
Employer contribution after measurement date	7	4,373	283	274
Unamortized past service costs	5,813	6,511	628	708
Unamortized net actuarial loss	58,477	70,587	8,622	8,052
Prepaid (accrued) benefit cost recognized in the statements of financial position	22,097	24,566	(28,571)	(25,660)

Prepaid benefit cost is shown net of valuation allowance of \$nil (2003: \$nil).

Registered Pension Plan Assets

As at the measurement date of September 30, registered pension plan assets were split by market value between the following categories:

	2004	2003
Equity securities	57.8%	58.4%
Debt securities	40.0%	39.4%
Cash equivalents	2.2%	2.2%
	100.0%	100.0%

Summary of principal assumptions used to calculate benefit obligations

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Discount rate at end of the period	6.25%	6.10%	6.25%	6.10%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

The assumed hospital and drug cost increase rate for the next year is 9.0%. The rate is assumed to decrease gradually to 5.0% in the year 2010 and remain at that level thereafter. Dental costs are assumed to increase by 5.0% per annum.

Summary of benefit costs and plan contributions

	2004 Pension Benefits	2003 Pension Benefits	2004 Other Benefits	2003 Other Benefits
(in thousands of Canadian dollars)	\$	\$	\$	\$
Benefit cost	7,495	4,276	4,054	3,298
Employer contributions	9,392	123	1,134	1,008
Plan participants' contributions	1,901	1,803	-	-
Benefits paid	8,298	9,228	1,134	1,008

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2002, and the date of the next required valuation is January 1, 2005.

Summary of principal assumptions used to calculate benefit costs

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Discount rate at the beginning of the period	6.1%	6.6%	6.1%	6.6%
Expected return on plan assets	7.25%	7.25%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Rate of indexing of pension benefits	2.5%	2.5%	-	-

8. SEGMENTED INFORMATION

IESO consists of a single business engaged in the operation of the wholesale electricity system in Ontario.

9. COMMITMENTS**Operating commitments**

The obligations of the IESO with respect to non-cancellable operating leases over the next five years is as follows:

(in thousands of Canadian dollars)	\$
2005	2,049
2006	1,598
2007	1,242
2008	1,060
2009	610

10. SUBSEQUENT EVENT

As a matter of energy policy, the Ontario Government created the Ontario Power Authority, under Bill 100, to engage in a range of activities as outlined in the Bill. The legislature approved this policy by passing Bill 100. Recent amendments to the Electricity Act state that the IESO may be called upon to assist or support the OPA.

Further to the above, as a result of recent discussions between the Ministry of Energy and the IESO, the two-named parties entered into a Memorandum of Understanding (MOU) on January 4, 2005, under which the amount of \$15.0 million of the IESO's accumulated surplus will be made available to assist the OPA in undertaking its statutory responsibilities. Under the terms of the MOU, the OPA will be able to use these funds to support its start-up costs. In addition to the aforementioned financial support, the MOU also requires the IESO to work with OPA management to determine those services and other assistance that OPA management agrees can best be provided by the IESO with a view to achieving the efficient implementation and delivery of the OPA's statutory obligations without compromising the IESO's capability to meet its own accountabilities under statute. There has been, at this time, no determination of those services and other assistance that the IESO would provide to the OPA.



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